A LIST OF UNUSUALLY ATTRACTIVE PREFERRED STOCKS

The MAGAZINE of WALL STREET

Seven Practical Articles Answering Your Question:

What Stocks Shall I Buy

and

What Stocks Shall I Avoid

Should Americans Buy Europe's Bonds?

By Senator McKellar

Are the Oils Suffering From Tickeritis?

An Intriguing Analysis

An Open Letter to Mr. Prince:

Mr. Wyckoff Explains How Buying and Selling Points Are Detected

September 4, 1923.

Mr. Theodore Prince,
Financial Dept., *N. Y. American*,
20 Broad St.,
New York City.

Dear Mr. Prince:

I have had the pleasure of reading, in the *American* of August 14th, your comments on the Richard D. Wyckoff Analytical Staff Service. As that is only one branch of our business and as its basis is far removed from what you have designated as "tape reading," I trust you will permit me to make clear some of the points on which you have commented.

Our Analytical Staff, which is distinctly an investment service, after a careful survey of the investment position of its Associate Members, makes recommendations as to the permanent investment of the majority of their funds, and advises them to set aside a certain limited amount of capital to be devoted to investment for stock market. In this department we set forth our judgment of the future course of the market, based upon an analysis of its own action. We endeavor to anticipate the important turning points and to advise securities which should, at such times, be bought or sold in order to derive a profit from the price fluctuations.

For example, in October 1922, when the market suddenly reversed, turned from bullish to bearish, and again in July and early August of this year when we took the bull side. During that interval of ten months there were numerous swings in the average prices of stocks which we utilized for profit making. In all Wall Street operations one must recognize the fact that it is impossible for any one to be right all the time, but we strive to attain a high percentage of accuracy. We limit the risk on individual transactions to a few points and when favorable movement occurs we let our profits run. In this way we are able to show a substantial

Mr. Wyckoff's letter, if read in connection with the analytical articles appearing in this issue, will tend to throw light on what is generally the most difficult thing for investors to understand—namely, the importance of ascertaining the technical position of a stock before making the commitment.

It is fundamental in specvestment that no investor can attain substantial success who fails to consider the technical position of the security which he proposes to acquire.

income and profit. These are selected first with regard to the industries which are in the most favorable position, and next from the individual stocks which at the time are safest, most remunerative and most promising. All of these stocks are listed on the New York Stock Exchange, and nearly all are standard dividend payers. Associate Members' investments are carefully watched and changes recommended from time to time in accordance with their individual requirements.

We have two other services, the best known being the "Investment and Business Service." Investors, traders and students of the market throughout the country find our conclusions and advices helpful both in forming their judgment and in guiding their actions. This service also recommends bonds, preferred stocks and other investments, summarizes the business outlook, trade tendencies, money, credit, banking, foreign trade, etc., but the feature of this service which appeals to the largest number of people is its analysis of the technical position of the balance on the right side in the course of the year. We do not claim anything more than a large percentage of profit on the capital employed. This we have been able to accomplish on the average for many years past.

What was formerly known as tape reading is applied to our business in a much broader sense than was indicated in your article. In brief, we endeavor to judge the future course of prices by the market's action, just as you would judge the character of an individual by his own actions. It is a well-known fact that when you thoroughly understand a person's nature and disposition, you can almost tell what he will do under a given set of circumstances. It is that way with the market.

Having devoted thirty-five years to the study of securities and price movements, twenty of which were largely employed in a search for the true governing principle of the stock market, I came to the conclusion fifteen years ago that the law of supply and demand was at work in this field, just as it is in the market for wheat, corn, commodities, labor and almost everything else that is used or consumed by humanity. It may readily be seen why this is true: A stock does not decline because its dividend is reduced, but because someone sells more stock than the buyers are willing to absorb at a certain price. If the strongest pool in Wall Street were to purchase 100,000 shares of a certain issue, that stock would not advance if someone else or some group of men had 101,000 shares for sale at that price; whereas if there were little or none for sale within a certain range, the purchase of 100,000 shares might result in a ten, fifteen or twenty point advance, demand being temporarily greater than supply.

This principle, applied to all stock market movements, furnishes the real solution of a problem that has baffled millions of people for the past hundred years. Even now, very few understand it or know how to apply it, but I find the principle constantly at work in all the various phases of stock market movements from the little one or two point daily swings, to the weekly, monthly and yearly movements; in fact, through all the entire course of the market from panic to boom, and back again. I have also found, in studying the methods of all the great operators of the past, that those who were most familiar with this principle were among the most successful.

Stock market prices are, in one sense, fluid, inasmuch as they invariably follow the line of least resistance. No one can tell how long or how far this line will lead in a certain direction, but the evidence that it will change, is about to change, or has changed, is clearly apparent to one who is experienced in judging the market by its own action, although the interruptions and reversals, due to the unexpected causes which you mentioned, frequently compel swift alterations of opinion.

As you are aware, a very large part of the principal movements of the market are the result of operations by large interests who accumulate stocks in times of weakness, and liquidate in boom times when other people are enthusiastically buying. These large operators act as a fly-wheel; their buying and selling tends to balance or steady what would otherwise form numerous highly erratic swings resulting from buying and selling by the public.

The study of what is known as "inside," or, let us say, *experienced* accumulation and distribution at the important turning points of the market, is the real basis of our work. The past year has

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School for Traders & Investors

Sixteenth Lesson

Use of the "Immediate" Order

Advantage of Using this Type of Order and How They Should Be Given

UNCERTAINTY with regard to the execution of an order to buy or sell a certain stock at a stipulated price may cost the trader anywhere from a large fraction to several points. This is true in both active and thin-market issues, and particularly when the issue has been under accumulation or distribution for a considerable period of time, and is about ready to enter what may prove to be a considerable advance or decline. If many traders have the same desire to buy around a certain level at the same time, it is probable that the stock may actually appear on the tape at your price, but owing to the large demand, your order did not have a chance to be executed. You may think your order has been executed only to learn, after the stock has advanced a point or more, that you have been left behind.

This condition may occur in either an active issue, or in a thin-market stock that appears only two or three times a week or at most in volume represented by from 100 to 500 shares a day. The only difference in these two cases is that the active stock may get away from you only a large fraction or a point before you realize that a market order is the correct manoeuvre, whereas the thin stock may be jumping from one to two points between sales.

Of course, a thin stock is not so desirable to trade in, on account of the probable difficulty in getting out of the market when the time comes, but nevertheless, such an issue may offer very attractive profits for a moderate commitment, and in any event this circumstance has nothing to do with the principle we desire to present relating to the use of the "immediate" order.

How to Give "Immediate" Order

The uncertainty referred to above may be eliminated by giving an order wherein you specify either *immediate* execution or a prompt report of the bid and asked price of the issue at the time the attempt is made to execute the order. When you give your order to buy or sell, just say, "Immediate," which means that the broker must *execute the order instantly or cancel it and quote the market.* Of course, this does not apply to orders "at the market" as the broker is compelled to execute these at the best price obtainable. "Immediate" orders should be given only when a price limit is given.

By this method, instead of delay, you get either the quick report of an execution, or advice that the order is cancelled together with information on the current market position of the issue. You then have an opportunity to size up the situation, and give a new order at the market, or at whatever price your judgment dictates.

The point is that you know where you stand immediately. You do not have to sit with your hands tied, watching the market slide away from you. The "Immediate Order" saves delay, and often prevents loss. It applies to either the long or short side and to getting out of as well as into the market.

MR. WYCKOFF EXPLAINS HOW BUYING AND SELLING POINTS ARE DETECTED

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repeatedly shown that others find it impossible to reconcile the news factors and so-called fundamentals with the movements of the stock market. Those who have confined their view solely to the business and banking situations during the past twelve months, have failed as prognosticators. Those who bought or sold, because the European situations looked good or bad, were likewise confused.

Show me *any* analysis of the *known* factors of the past year which has accurately gauged the future of the market even thirty days in advance. On the other hand, I can show you many instances where the action of the market has correctly indicated that prices would advance or decline, and our subscribers have made a great deal of money by following our advices to buy and sell, which, although not invariably correct, have shown a good profit in the net. An especially marked advantage accrued to those who liquidated in October 1922, when we so advised, and began repurchasing in July of this year. The "Market Prospect" in the files of THE MAGAZINE OF WALL STREET furnishes ample confirmation of this fact, as does our growing clientele.

I claim that it is practically impossible for any man or organization to absorb, analyze and digest the many thousands of factors which now influence the course of the stock market, and deduce from these factors a conclusion on which the course of prices may be predicted with any fair percentage of success. The problem is entirely too complicated—especially so when those who work on the above basis rarely understand the highly important element of stock market technique, which includes as its main element a study of the manipulative forces that are constantly at work in practically all of the active stocks. If anyone believes he can thus predict market movements of ten points or more in the average price of any standard group of stocks, I should like very much to know his name, for I have been searching for him for many years. Numerous people have claimed that they could, but I have not found any one who could, nor have I encountered, after a careful search, any one who is well satisfied with the results obtained from operations conducted under the advisory services of those who claimed to be experts in this field. That seems like a pretty broad statement; but can it be refuted?

It is true that an experienced operator can so disguise his operations as to make them look like accumulation when he is really distributing, but he can only do this up to a certain point. There are ways in which his real purpose may readily be detected and a like position assumed by a trader desiring to benefit by the skilled efforts of the large operator. True, the problem is one of interpretation, which requires long experience, thorough knowledge and skill; but as even the most important of those who are operating in a large way are unaware of what the future holds for general business, for the stock market or for individual industries or securities, such operations must be tentative, subject to correction or reversal at a moment's notice, and invariably carrying a large percentage of risk. If this be true of the most important among those who deal in the market, how much

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and the offered yield is third highest of the list. As a smaller company, Chandler lacks some of the elements of industrial leadership, industrial ramifications and organization of the Studebaker company; therefore, its shares cannot be said to possess the same investment attractions as those of Mr. Erskine's enterprise. On the other hand, Chandler has, in the past, established an enviable reputation for profit-sharing on its stockholders' behalf, and is always closely watched for its speculative possibilities.

The one company, out of the nine covered here, which appears most strongly fortified industrially and whose common shares, everything considered, seem to have the best claim to a high investment rating, is Studebaker. The company whose shares seem to possess the best speculative possibilities is Chandler. The company whose shares the writer would prefer to switch out of is Moon. The others look to be of the sort that can be counted on to "trail along."

MR. WYCKOFF EXPLAINS HOW BUYING AND SELLING POINTS ARE DETECTED

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more so is it true of those who trade or invest in a small way?

The stock market is often referred to as a game, and I believe that to be a true term. Engaged in this game are the wealthiest and most powerful people in this country; their capital, business enterprise, foresight and ingenuity are employed in working out their side of this difficult problem. That is why it is not easy for the outsider; why it is almost impossible for people to judge the future course of the market by the use of rules which ordinarily apply in other lines of industry. This game has its peculiar characteristics not soluble by any of the rules of thumb elsewhere employed, although frequently flaunted as offering valuable assistance to the investor.

Dow's theory, to which you referred, is very general and cannot be reduced to a few rules that may be successfully applied by the inexperienced; nor can any other theory of which I have ever heard, and I have examined hundreds of them. Those who study the problem for a number of years realize that any one claiming that he has reduced stock market action and trading to a system deserves nothing but ridicule, because no "system" can be applied to a market that constantly changes in character, and to price movements of securities which reflect or discount world-wide conditions in thousands of industries through hundreds of stocks operated in by millions of traders and investors on this and other continents. Then how can any "system," that must be built up on known facts, forecast price movements that often discount the very facts used as a basis therefor?

A more appropriate comparison would be with the moving-picture film on which every flash is different in some respect from its predecessor and successor. By

observing everything that appears on a film one may study the action of the characters, read their purposes, and judge what they will do when put to the test. Obviously, nothing like a system could be applied to such a series of observations, but it is frequently possible to tell from the beginning of a film how the action will terminate, notwithstanding the efforts of the author to disguise and deceive his audience.

I trust that these comments will make clear to you the character and purpose of our work. Like all such advices, they should not be accepted blindly and merely as a matter of trust; instead, they should be compared with the product of others who work with entirely different sets of tools. I am ready and willing to have the net results of our work compared with any of the others on any basis that the public or your publication may desire, but, in the last analysis, it is not what any one claims in this respect, but as is now being publicly proved, whether the old law of the survival of the fittest still maintains.

Cordially yours,
Richard D. Wyckoff,
Editor.

ARE THE OILS SUFFERING FROM TICKERITIS?

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Bedford candidly admitted. But it must be remembered, he said, that the oil business has radically changed in the last quarter of a century. In the early days, the oil people figured that the industry would be comparatively short-lived. Each succeeding oil pool developed in Pennsylvania, West Virginia, Ohio, and so on, was supposed to be the last. For that reason Mr. Rockefeller was strongly in favor of conserving resources against the day of final liquidation, supposedly not far distant, and averse to public participation in an industry which he figured would lapse overnight. At the time of the dissolution of the parent Standard Oil Co. in 1911, it had come to be realized that the oil industry was a permanent matter and that human endeavor could be counted on to develop new sources of supply to make up for those that were failing.

INCREASE IN SPECULATIVE INTEREST IN STANDARD OILS

	Standard Oil of Cal. (Total Transactions)	Stand. Oil of N. J. (Com.)
1920......	......	*21,818 shs. ($100 par)
1921......	†194,960 shs. (par $25)	173,531 shs. ($25 par)
1922......	[2]1,764,110 shs.	1,335,620 shs.[1]
1923.....	‡[3]1,366,250 shs.	‡2,349,208 shs.

* Listed on N. Y. Stock Exchange March 24, 1920.
† Listed on N. Y. Stock Exchange June, 1921.
‡ Rate for year based on 8 months' transactions.
[1] 400% stock dividend declared December 20.
[2] $2,867,625 par value issued to employees and $102,240,936 as 100% stock dividend.
[3] $25,685,865 par value issued for capital expenditures.

NOTE: The above roughly indicates the increased turnover in these two Standard Oil stocks and shows clearly the increase in speculative interest which has been aroused in these shares.

About the same time it was apparent that the nature of the business had been revolutionized. The increasing importance of the automobile made it evident that the kerosene, the main product heretofore, was supplanted by gasoline. The original product had become the by-product and vice versa.

Tremendous Expansion

The enormous growth of the petroleum industry during the war period and since, which has quite outstripped anything ever seen in the oil or any other industry, called for increasingly greater amounts of capital. In the earlier days there was a small group of very wealthy men controlling the industry who had sufficient capital to meet all new requirements. By 1911, many had died, and their holdings passed into estates. Through the dissolution, the Standard Oil stocks passed from few to many hands. The remaining insiders were no longer able to supply the great amounts of additional money required to finance rapidly growing needs. Hence the necessity for calling upon the public and hence the greatly increased issues of Standard Oil securities.

There was another very important factor to be considered also. In the dissolution of 1911, Standard Oil learned its lesson. Namely, that it is not good policy for large businesses to be consolidated in few hands. Every stockholder means a supporter. So the Standard Oil Co. of New Jersey, like many others of the Standard family, killed two birds with one stone. It let the public in, putting the par of its stock at 25, so that even the lowliest investor might participate, and by the same token financed its growing requirements. At the present time, there are 20,000,000 shares of common stock outstanding held by approximately 60,000 stockholders as against 6,000 stockholders in 1911.

With such a volume of stock listed and in so many different hands it was inevitable that the issue should invite speculative activities. The table, which accompanies this article, very clearly shows the increase in speculative interest. In all fairness, however, it should be said that our investigation of this matter has not revealed that the officers or the directors of the Standard Oil companies mentioned have had any hand in the speculative activities of the issues.

That certain individuals and groups have profited market-wise by their knowledge of the oil business and entre to inside information is no far-fetched conclusion. But such has always been the case and probably always will be as long as Wall Street is Wall Street, and the desire for material gain continues to be one of the two dominating characteristics of human nature.